THE FUTURE OF THE CORPORATE CENTRE

THOUGHTS ON HOW TO GET THE ROLE OF THE CORPORATE CENTRE RIGHT

INTRODUCTION

This white paper focuses on the relationship between the corporate centre and business performance. It shows how the nature and style of the relationships between the centre and the operating companies of multinational businesses impact their ability to develop, deliver and sustain a strategy. It also demonstrates how good decision-making regarding the timing of changes to the make-up and traits of the corporate centre can have as much impact on performance as making the right choice of central team.

In summary, we set out what we believe the corporate centre is there to do, how you know that it's time for a change and look at the styles of corporate centre you might wish to adopt. We hope the paper makes for interesting reading.

We would welcome your feedback to info@q5partners.com.

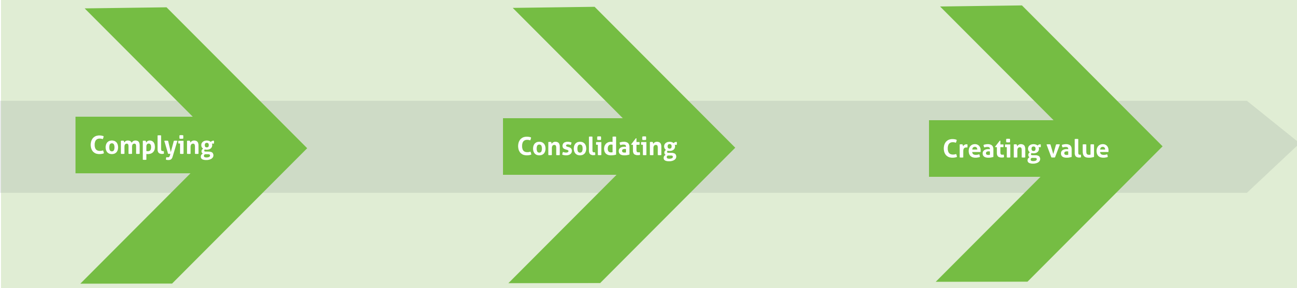
1. What is the purpose of the Corporate Centre – compliance, strategy or implementation?

There has been a good deal of focus in recent years on the role of the corporate centre as the guardian of compliance and standards in business. This is certainly a key element in the make-up and outputs of any corporate team, but there is considerable evidence that the pressure on boards to ensure that compliance regulations and standards are met has used up both share of mind and share of activity in a way that has been counterproductive. For example, of the companies taking part in a recent benchmarking survey that Q5 commissioned[1], most of the companies had over 30% of staff in the centre dedicated to compliance activities. For some companies, it was more than 50%. This has two main effects. It makes the primary role of the centre one of oversight and guardianship and it liberates the operating companies from any clear understanding of – or commitment to – the regulations of the world in which they operate.

A good example is the company that does over 70% of its business in the US and yet does not know how to apply the local tax rules – because that's 'head office's problem'. Companies doing business with the US government have similar issues - where should they draw the line between accountability for oversight and accountability for implementation? Too much central control can lead to the rise of the incompetent in the businesses.

Beyond compliance, the corporate centre has a key role to play in creating the future for its businesses and to provide consolidated functional services to support business operations. Finding the balance between these three areas of activity is one of the most important choices for any Chief Executive and his/her team.

Fig.1 "The Three C's – Complying, Consolidating and Creating Value"



Role: Bare minimum mandatory activities required to meet corporate legal and regulatory activities (e.g., external financial reporting)

Typical Functions:
- Financial Reporting
- Internal Audit
- Compliance
- Tax
- Treasury
- Secretariat & Legal
- Employee Health & Safety

Role: Services that benefit from aggregation (e.g., due to economies of scale, specialisation)

Typical Functions:
- Information Technology
- Procurement
- Human Resources
- Pensions Administration
- Services & Facilities

Role: Discretionary activities that deliver additional value above that of the individual divisions

Typical Functions:
- Strategy & Financial Planning
- Corporate Development / M&A
- Marketing / Branding
- Research & Development
- Organisation Development
- Compensation Strategy
- Leadership Development
- Investor Relationships

Focus on efficiency and cost reduction

Focus on adding value

So, for example, a corporate centre that puts a good deal of time and effort into supporting strong functional leadership and processes is going to create a business culture that (at its best) is focused on excellence of delivery. It will create a strong corporate career ladder for functional leaders as well as business leaders and the culture will be one of centralised accountability and decision-making on issues such as talent management, procurement, IT applications or financial processes. Equally, a centre that places a strong emphasis on corporate development shows it wants to focus on the future strategy of the business.

Does "I'm from Head Office" always have to be a negative introduction?

Sometimes there's nothing more enjoyable in business than a good moan about head office. The question we had to answer in compiling this white paper is this – how much is this the inevitable consequence of the exercise of control and to what extent can it be mitigated by the way in which that control is exercised?

We show in this paper that there are essentially four styles of corporate centre and that each has its own traits and personality. The winning companies are the ones that match their corporate centre style to the needs of the business and are overt and conscious in doing so. For example, the clarity and simplicity of the Holding Company style is a clear advantage to a conglomerate of fast-growing business units that together have a global footprint, but separately do not have the scale to require more process from the centre. Nevertheless the journey of companies who have tried to grow out of this model, often driven by their need for scale, management information and perceived client needs, is a hard one.

Few Chief Executives of Holding Companies want to take on the power of the barons who run their businesses – but unless they can do so, they will not be able to exercise the different type of control required to grow the business.

A specialist aerospace manufacturer with whom we worked is an excellent example of the inherent challenges in making this journey.

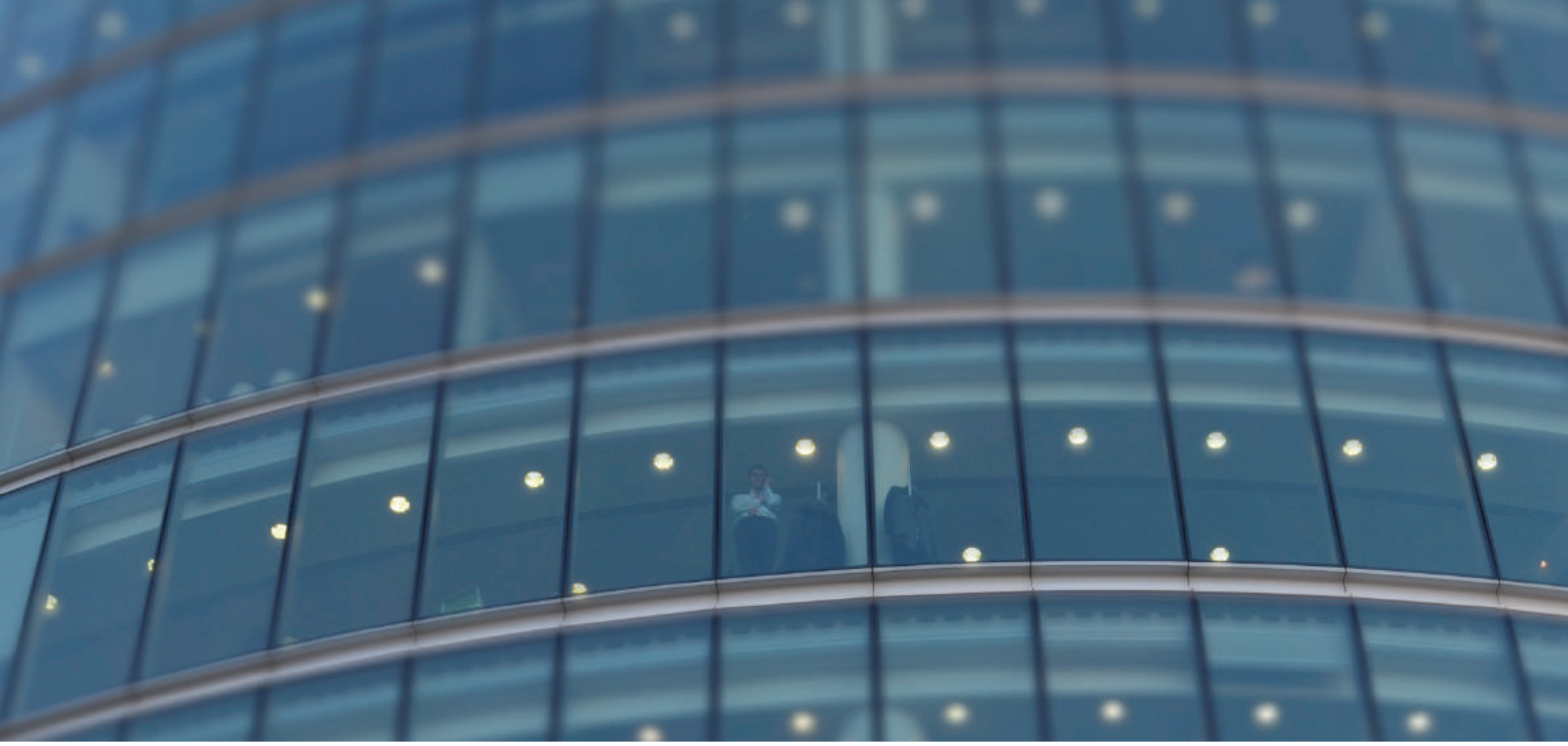
First rate in every measure of profitability and shareholder return, their CEO was prescient enough to realise that without some central leadership of sales and marketing, strategy and talent management, the company could not compete in an increasingly global market, where clients would be able to drive cost reductions. Having two hopeful salespeople turn up to the same client on the same day would suddenly be more than just embarrassing, especially if they were offering similar products at different prices. The question the company had to answer was how to change and grow its headquarters without losing the entrepreneurialism for which they were rightly lauded.

The role and impact of leadership

There are only three key elements in any successful business: a product or service that people want to buy, sound processes and people. If you can align these correctly you will make money – that's the power of leadership. In choosing and implementing the most appropriate style of corporate centre the power of leadership is obvious. From the first engagement with the senior executive team to the clarity with which the lowest levels in the business understand what the centre does and how it does it, strong leadership is paramount.

We have seen a number of centrally-led corporate change programmes focused on the size and shape, role and purpose of the centre that have hit their targets in terms of reducing headcount but never got close to changing the way they operate, and – just as importantly – never changed the way that the operating companies deal with them or view them. In these cases, central teams have mistaken the clarity with which they have cut central overheads with what "good" looks like.

An excellent example of how to do this was the Chief Executive we worked with who sat down and mapped out how much time he spent with each of his five core constituencies – his investors, his board, his clients, his direct reports and his central team. In the recent past, he had needed to spend a lot of time with his central team poring over the numbers, as the key factor in success had been detailed financial management. He realised that this was no longer the best thing he could do and set himself a new personal goal to define what it was "good" for him to do. This commitment backed up the changes he was making to the centre of his business, which today is four times the size and even more successful.



2. The four styles of the Corporate Centre

Our benchmarking analysis demonstrates that corporate centres can be categorised into four distinct styles, each with its own characteristics, strengths and weaknesses. We categorise the styles based on the number of FTEs in the corporate centre and on the strength of the corporate processes managed by the centre.

The styles can be divided into two basic camps: "lean centres", typical of the Holding Company and Private Equity styles, and "larger centres" as seen in the Tactical Partnership and Active Partnership styles. The main characteristics of each style are detailed below.

Fig.2 "The main characteristics of the four corporate centre styles"

Number of FTEs in Corporate Centre (Low → High)

Tactical Partnership
- Evolution driven by 'powerful few' who own company history
- HQ has grown by adding management layers
- Corporate centre role is to check and assess what is proposed by operating divisions
- Few standardised processes or management information
- Centre not seen to add value

Active Partnership
- Large powerful corporate centre with high level of control over strategic planning
- Strong functional leadership with most senior and well paid people at the centre
- Change driven from the centre
- Greater emphasis on shared services and common processes
- Longer-term focus

Holding Company
- Minimal corporate core
- Focus on financial targets & results
- Few central functions or leadership
- Few centralised processes leading to more headcount
- Businesses at every life-stage

Private Equity Model
- Minimal corporate core
- Focus on financial performance and returns
- Little or no central functional leadership
- Strong governance between Group Executive and business units exerted through "investor directors"
- High control over make-up of executive teams
- Best paid people mostly in the business
- Short sharp decision-making cycles and horizons

Strength of corporate processes (Low → High)

The Tactical Partnership

The Tactical Partnership style is defined by the centre having a high level of influence on the company but a relatively slow speed of decision-making. Often much is talked about strategy with less evidence of delivery. Its evolution has typically been driven by a powerful few, who alternate between roles in the centre and running the company's different divisions – hence their level of influence. The primary role of the Tactical Partnership corporate centre is to act as a check and balance upon proposals made at a divisional level.

All of the processes within this centre style have been designed to support great control over the divisions but often they lack clarity in terms of handover points and ownership of decision making.

In the Tactical Partnership confusion is found over who does what. For example, in strategic business planning the business units will be each asked for their commercial plans, which are then edited, consolidated, aligned with Group business plans and returned to the businesses as unrecognisable from their original submissions.

So the next year, the businesses either don't bother to submit a plan, or send in such poor efforts that the centre complains bitterly about the lack of strategic capability in the businesses. The planning cycle is extended by the time it takes to resolve the bickering.

This type of partnership is most commonly seen in organisations that have grown rapidly but have not thought actively about how to evolve the way they run the business as they go. This is often related to a close-knit, long- serving team that shares out the jobs amongst itself.

Q5 insight:
"The Tactical Partnership model is an attempt to build power at the centre without having completely sorted out governance with the business units. The result is that teams get bigger but they don't have any real power over the way the business units act. As a result, the units lose direction. Charles I provides an historical object lesson of the failures of the Tactical Partnership model – which is why Cromwell was able to outwit him and win the political battle in the English Civil War. Charles created a court full of yes-men and hangers-on whom no one respected and who did not know what was really going on out in the country – or what was needed to create change and bring power back to the centre. This is a very costly model to run and often ends up with a shareholder revolt."

The Active Partnership

The Active Partnership style has a high level of strategic influence combined with the ability to make decisions quickly. For this reason, it is the model to which many businesses aspire.

The Active Partnership is defined by a powerful corporate centre with great control over strategic planning and corporate development activities.

There is greater emphasis on shared services and common processes (especially within R&D, Marketing, Procurement and HR), combined with less focus on short-term results. The Active Partnership concentrates instead on achieving its strategic goals.

The Active Partnership style is often found providing functional leadership across the organisation.

The centres of expertise (for example) for HR and Finance will be based in the centre, and professional / career development throughout those functions will be closely managed and promoted from the centre. The Active Partnership lends itself best to organisations where there are commonalities between the business divisions and their processes. Typical organisations are those in financial services or retail, such as Marks & Spencer.

Q5 insight:
"The difficult business of running an Active Partnership is rather like trying to establish proper democracy. The centre focuses on particular areas of excellence through which it wants to drive change.
So, in this model, the centre may be quite large because it has grown in particular areas. Also the centre here needs to be conscious that there will be times when it needs to change its area of emphasis.
One Q5 client had a really big HR team because it wanted to manage all international moves – it saw this control as a key way of influencing its businesses. Other businesses we've worked with always retain R&D at the centre in order to keep direct control of R&D out of the hands of the business units. These types of shared services are similar to a government, for example, which will keep very tight control over national security but is happy to outsource 'lower value services', such as benefits provision or local government.

The Holding Company

The Holding Company has a low level of strategic influence and numbers are low at the centre. The corporate core here is minimal and its focus is almost entirely on financial targets and results, often springing into action only to review capital expenditure and potential acquisitions.

The lack of centralised processes and limit on numbers at the centre can often lead to a corresponding lack of control on numbers in divisional teams – but this is not the concern of the Holding Company CEO – unless he/she decides to move to a different model, when the upskilling of the centre is often combined with a change in the size, shape and focus of the operating company, leadership teams and processes.

The Holding Company is typical of organisations that have a number of different operating divisions each with their own unique products, customers or markets. Classic Holding Companies include BBA Aviation and Bunzl. The Holding Company is the type of corporate centre that is most prone to drifting into the Tactical Partnership model.

Q5 insight:
"The Holding Company model derives from the medieval form of kingship, where the King was the most powerful of the barons, holding sway by keeping a firm grip on the political reins of power with the key stakeholders – then they were the Church and the other nations in Europe, now it's the investors and the banks – so when the King wanted to go to war he would ride round the castles on his horse negotiating rates for men and horses, and in return the barons got a cut. Similarly, the Holding Company CEO sets expectations with the investors and leads the strategy to go to war in terms of buying and selling – but doesn't have many resources at the centre. So, on a big M&A deal, the CEO needs to pull together a project team staffed with people from the businesses. This can create a fractious relationship between centre and business units."

The Private Equity Model

A style which has gained an increasing presence in blue-chip companies during the recent past, the Private Equity Model is defined by a minimal corporate core and a strong focus on performance targets and a clear time period in which to deliver them. Strong governance processes between the Group Executive and the business units are common, and there is a high degree of control over the make-up of the executive team.

Private Equity centres have short, sharp decision-making cycles.

Organisations that have embraced this model are those that are focused on driving up the value of the business over a short time frame. Virgin Group is a typical example of this model.

In the Private Equity model, a key requirement of the central HR function is to be able to identify and recruit top talent to run the businesses. Considerable expertise is required in weeding out poor performers and replacing them with CEOs and finance directors who will be able to deliver the business plan.

A natural corollary of this is expertise in reward and remuneration packages to attract and retain world-class leaders and management.

Q5 insight:
"The Private Equity model works rather like the 'perfect state' in Plato's Republic, in that there is a firm belief in the power of a few key leaders and in firm rules through which the leaders operate. It is totally focused on the conviction that it is possible to define a limited number of key performance indicators through which the leaders manage and are measured, and if they fail – they leave. This conviction drives all aspects of the centre, from remuneration to the cost of capital in the business units."

The respective strengths and weaknesses of the four styles of corporate centre are summarised below.

	Larger Corporate Centre		Leaner Corporate Centre	
	Tactical Partnership	**Active Partnership**	**Holding Company**	**Private Equity**
Strengths	• High degree of loyalty and ownership • People on the inside understand how it works • Culture of 'active doers'	• Strong functional capabilities • Efficiencies through scale • Focus on mid-to-long-term strategy means less distracted by short-term results • Greater focus on adding value	• Focus on delivering financial targets • Grown through M&A and strong leveraging of cash • Very low cost, hands-on approach • Works for any life-stage • Simple and easy to manage	• High capabilities within operating divisions • Emphasis on clearly stated goals and financial strategy • Prioritisation of capital investment delivering faster returns • Remuneration closely linked to success • Board behave as investor-directors
Weaknesses	• Progression through being part of 'the club' not talent • Constrains the operating divisions' ability to stand on own two feet resulting in lower capability of people • Often an unclear business model to outsiders • Emphasis on activity not output • Tendency towards bureaucracy • Greater duplication between centre and divisions • Paternalistic and protective of underperformers	• Centre can be a bottleneck to decision-making • Centre can be too removed from 'real' business • Can get on the wrong side of M&A – often there's not enough ready cash • Cross-business subsidising takes place	• Little strategic direction and leadership • Bias towards financial metrics • Economies of scale under-utilised • Talent management is often lacking (operating company presidents don't usually become the next CEO) • Too focused on detail and micro management	• No room for second chance – even with a good team • Focus on short-term improvements • More successful in a strong economy • Little room for true operational improvement, focus can be on cost-cutting • Harsh & de-motivating environment especially for those lower in the ranks – less comradeship

Fig.3 "Understanding the strengths and weaknesses of the four types of corporate centre"

3. What type of centre should you have?

Our benchmarking research shows that there is no single factor that drives the choice of corporate centre. There is simply no correlation between turnover, number of employees, type of business and corporate centre style – which does not make things easy for the CEO looking for an instant answer to the question "how should I set up head office?". However, there are clearly teams that have made good decisions to change and those that have resisted making necessary changes and lived to regret it.

The single most important factor we have identified is a simple one – the corporate centre needs to be fit for purpose and to support the Group's strategy.

What is most telling is that in all the benchmarking reviews we have undertaken to date, more than 90% of the organisations are unable to produce a consistent definition on the role of their centre or explain how it supports their strategy. This is particularly the case with those demonstrating the Tactical Partnership style.

We have identified through our client work, reviews of strategic plans and analysis of company reports which corporate centre styles are seen most often, when mapped against stated strategic goals.

Corporate Centre Style	Strategic Goals
Tactical Partnership	Cost-control, divisional growth & market penetration
Active Partnership	Organic growth, margin improvement, quality improvement, cost-reduction, shared services, knowledge-sharing, capability improvement
Holding Company	Cost management, growth through acquisition, capital growth, margin improvement
Private Equity Model	Return to shareholders, capital growth, capability improvement, cost-reduction

We also found from our recent benchmarking survey that – of all the companies we benchmarked – few boards of any of the companies knew how many people are employed at the centre or how much the centre costs each year. Indeed the true enemy of clarity about the real extent of the centre is the practice of cross-charging. It really is the – "I'll have a thin day tomorrow", as you tuck into a bar of chocolate – of the corporate world.

We found that the corporate centre typically accounts for 0.7% of company turnover. Our experience of advising companies on an appropriate cost level for the corporate centre is that less than 1% of turnover is a desirable ambition.

The highest percentage among the benchmarked sample was 3.6%, which denotes a large, unwieldy corporate centre with significant scope for cost-savings. The lowest percentage was 0.1%, which is indicative of a small corporate centre, potentially suffering from under investment. A corporate centre costs on average £30.8m per year, although costs vary widely across the survey sample depending on the size of the company itself.

In addition to establishing a sound financial cost and FTE baseline, the other key element of understanding where your corporate centre stands is to see if it is possible to identify and agree a modest set of guiding principles that characterise and guide the design, staffing and ways of working for the corporate centre teams.

Companies that really know where they stand, what their centre is for and who the central team really is, use these principles to make decisions about the handover points in processes between the centre and the operating companies.

Furthermore, they use them to support the definition of governance and decision-making rights, but most importantly they help define how people behave – what things are good to do and what are not. The institutionalising of a new version of 'good' is one of the hardest things that successful companies we have worked with have achieved.

Striking the right balance between the 3 Cs

A key element to understanding the corporate centre is to analyse the current balance between our three core categories: complying, consolidating and creating functions – the 3 Cs. We're looking not just at how much activity within the corporate centre falls into each category, but also in the balance between the different categories. This balance has a major impact on what the centre is like to work in, its culture and how it impacts the business units, as well as the centre's intrinsic value.

If we assess the different types of corporate centre, we can see a shift in the 3 Cs across the various styles. Our benchmarking highlights some interesting differences in emphasis across the four styles, in terms of which activities they focus on.

% of FTEs split by the 3 Cs

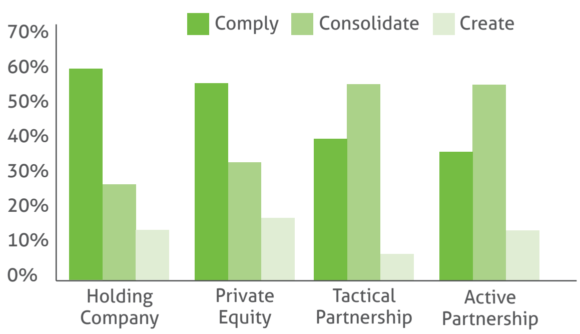


Fig.4 "Split of FTEs across Compliance, Consolidation and Creating Value for the four corporate centre styles"

Across the "lean centres" of Holding Company and Private Equity the focus is clearly on compliance, with over 50% of employees in these types of centres engaged in compliance activities. A further third of their employees look after consolidation – with only about 15% of the team involved in creating value.

The Holding Company's centre is highly focused on compliance and the value-creation function is streamlined. Consolidation activity, as expected, will be far lower than in either of the partnership arrangements. The Private Equity centre is highly focused on the requirements of the external stakeholders, investors, the press and on financials. It has a similar profile across the 3 Cs to the Holding Company, but will tend to have fewer people overall. In companies that have adopted the Private Equity model there has been a significant drive away from the provision of any functional service but, with no sense of irony, a strong drive to shape how those services are provided in the operating companies.

By contrast, the "larger corporate centres" of the Tactical and Active Partnerships essentially focus on consolidation (over 50% of employees), with compliance the secondary activity (less than 40%). It is no surprise that the Tactical Partnership has the lowest percentage of employees engaged in value-adding activities.

The Tactical Partnership offers a high level of interaction with the business units without achieving much. It requires very high levels of consolidation and where value-creation does take place, there is a lot of duplication of effort between the centre and the business units.

The Active Partnership will also spend a lot of time on consolidation (but to greater effect), and there will be high headcounts in the functional services, especially marketing and corporate communications and HR. Annual plans are agreed at the centre and then implemented. The value-creating activities are driven from the centre, but tend to focus on really big-ticket items.

A number of studies (for example, Harvard Business Review: Leading from the Boardroom by JW Lorsch & RC Clark, April 2008) highlight that too much of Board Directors' time is being spent on compliance and reporting requirements, at the expense of focusing on the long-term success of the company. Many of the world's largest companies need to find a better balance if they are to drive performance going forward.

Our benchmarking process has shown that creating value is mostly achieved through discussing finance, strategy and talent management at board level.

There is a real and direct return from concentrating the senior team's minds and efforts on the essential elements that make up their businesses. One CEO with whom we worked lamented the amount of time spent at executive committee meetings arguing about whether the figures were right, rather than what the figures told the team. Another senior team in a high-pressure turnaround situation realised that they were in the habit constantly of discussing what needed to be done in the next week. In so doing, they had lost connection with the team below them, which felt beleaguered and unrewarded for all its hard work in the previous twelve months, and had also lost the confidence of their non-execs, who could clearly see that the real future had been lost in the muddle of today.

4. How do you know when there's a problem?

What prompts organisations to review their corporate centre? Normally it's one or more of the factors below:

- Concerns about cost-effectiveness of the centre
- Upwardly drifting headcount and management layers
- The desire to seek new opportunities to create value
- Concerns about the corporate centre's ability to support growth and corporate strategy
- A business decision to divest or acquire a new business
- A clear need to restore value to underperforming businesses
- A new CEO who wants to shake things up

So a decision has been made that there might be a problem – or several problems. But how can the leadership team identify the problems in the corporate centre? Our study demonstrates a number of symptoms that can tell a board when and where the corporate centre needs intrusive surgery.

The most obvious example is when the flow of numbers (costs, headcount, etc.) at the centre is upwards and yet the business units and the central teams are still complaining that things aren't working. As a general rule, if business units, shareholders or management start to ask what all the central cost is for then there's a problem with understanding the true value the centre adds as well as with cost control!

Related to this is the 'hierarchy of control' issue; this is where there are too many layers of "management" that add little or no value. If the average number of hierarchies at the corporate centre rises above three then there is a problem. What's happening is that people at each level tinker with information before they pass it up to the next person for yet more tinkering. This kind of behaviour is very common, but it needs to be stopped.

Another problem sign is when small to medium-sized decisions go all the way to the top. This is a clear sign that everybody is involved but no-one is making decisions. This could be due to fear that the top cannot/will not delegate or it could be because people are mollycoddled and gradually lose their ability to make decisions. Either of these factors can also lead to the other. The flipside of this problem is when accountability is lost altogether – so for example, two business units take big decisions that are counter to each other without anyone at the centre knowing about them. This is equally damaging.

We also need to account for external factors. One Q5 client was hit by a sharp rise in raw material costs as well as a change resulting from an international trade agreement, which meant that the centre of gravity and profitability of the business shifted to the US. As the centre of gravity and profitability of the business shifted across the Atlantic, so the role and purpose of the corporate centre came under scrutiny.

Corporate Centre housekeeping

One option that every corporate centre should put in place as a matter of course is to undertake a regular 'housekeeping' review. The upward drift in headcount and costs is often invisible to the executive team and can be masked through the use of temporary staff and complex recharging mechanisms.

What is usually the easiest area to address is the number of people in the divisions providing a similar service to that which the centre thinks it alone provides. It is the natural tendency for divisional MDs to want to be able to stand on their own two feet without having recourse to the centre. It is therefore not surprising that we have managed without much difficulty to identify 10-15% in cost savings in every centre we've worked with. These are usually achieved through removing duplication of activities and also by consolidating activities under fewer roles. In one organisation we observed individual commercial managers supporting each sub-division, where there was no difference in the process undertaken or in the knowledge required. Of course, each manager then required their own junior assistant. Corporate Centre 'housekeeping' should be undertaken without fail every two or three years to ensure your centre remains in peak condition, whatever its style.

Aligning the corporate centre to support significant strategic changes

A more in-depth review of the role and the size of the corporate centre is required when an organisation has changed shape. For example, an organisation wishing to dispose of a business often needs to re-assess what functions and roles the centre concentrates on. There are some key questions to ask:

- Where does responsibility lie for identifying disposals and who is responsible for their execution?
- How easy is it to 'unplug' the business from the existing infrastructure?
- What proportion of the corporate centre cost can no longer be transferred to the business division?
- How does this affect existing governance arrangements?

Also, we can observe companies that have changed their corporate centre style in order to drive a strategic imperative. This usually happens at the peak of organisational maturity, where drastic changes are required to break established patterns of behaviour or shift an organisation from a state of ennui. What happens is a radical change in style and this often results in changes to the executive team, who are not seen as representative of this new style. As such, it has to be driven by a senior steering group including the CEO.

Below are two examples of companies in our benchmarking study that have examined the current role and purpose of their corporate centre and made conscious decisions to change it, and hence also change its size and shape.

A well known global food manufacturing business could trace its move from a Tactical to an Active Partnership. There were three key factors driving this change:

1. Increase in the price of raw ingredients put extra pressure on margins, requiring greater cost control both in the centre and the operating divisions. The centre has now focused on providing shared services and centralising core functions such as procurement and supply chain, to help achieve these economies.

2. Food contamination caused a public withdrawal of a major product, requiring greater central control over quality. As a result, the business realised that the centre can have a major impact on both sales and reputation.

3. Greater strategic control was required over the number of product types across the regional business units. The proliferation of product was adding to cost and organisational complexity across the business units. The centre needed to regain greater commercial and product development control.

A global technology organisation is moving from a Tactical to a Private Equity type model having sold a major business division. The key factors driving this change were:

1. The need to restore value and build up talent in underperforming businesses. The role of the centre had become too paternalistic, taking away much of the accountability from the business divisions. Executive reward was tied to business division performance – which has certainly had an impact on motivation!

2. Concern about the corporate centre's ability to manage strategic growth, as too much focus was being diverted on quarterly reviews and results and there was insufficient transparency of information. An organisation-wide review of management information was undertaken to reduce the collation of unnecessary data and to help inform future direction and strategic decision-making.

3. Headcount and management layers in the centre had drifted upwards. Costs were on the increase, as were the levels of bureaucracy and non value-adding processes and requests for data. Up to six layers of bureaucracy could be counted in some functions requiring a radical restructuring of some of the core corporate centre functions.

Finally, the corporate centre may be "in denial" about the fact that it is not fit for purpose. This is where external benchmarking can be of use in shining a light into the murky corners of head office and bringing an objective challenge to its current role, size and shape.

5. The importance of lifecycle in choosing your style of Corporate Centre

Our work with clients and on our benchmarking study of corporate centre functions shows that when defining a corporate centre style, timing and business lifestage are an important factor. Imposing a huge functionally-focused corporate centre on a start-up business is a massive (and costly) mistake. Understanding not just what type of corporate centre you have, but also what is appropriate for its stage of development, is critical.

The table below shows the typical lifecycle of a growing business.

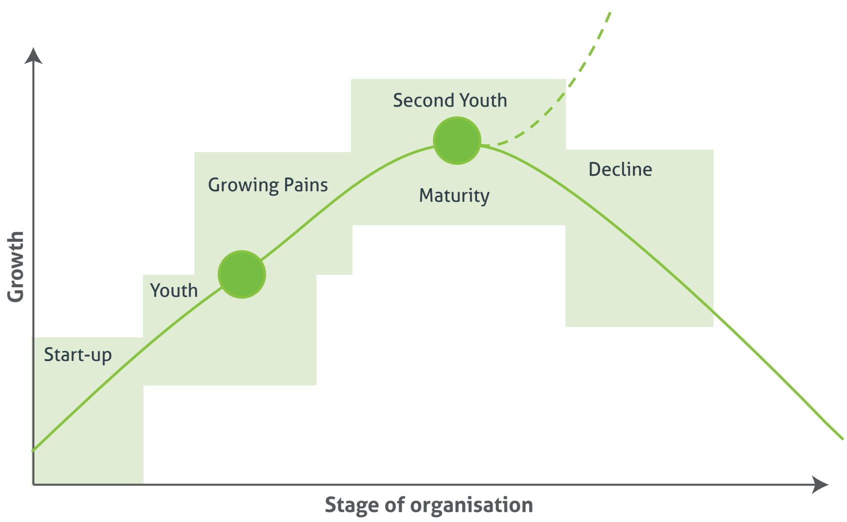


Fig. 6 "The lifecycle of a growing business"

We have most commonly seen two stages in the lifecycle of an organisation when its business model and hence the role of corporate centre needs most clarity:

- The 'Teenage Tantrum' – observed in many small organisations, especially those that have enjoyed rapid growth and are characterised by informal processes and multi-tasking by the 'powerful few'. This model becomes harder to sustain when the demands on individuals become too great. The tendency is to drift into the Tactical Partnership style, which becomes less and less effective as the business grows.

- The 'Mid-life Crisis' – is characterised by complicated processes, complacent management and losing sight of 'what we're really in business to do'. The solution often involves a refreshing of the corporate centre and is usually followed by taking more control of functions in the centre (Active Partnership) or pushing out as much as possible to the businesses (Holding Company or Private Equity style).

If we combine the stories of success from our benchmarked companies we can broadly track how they have evolved through different stages of company development up to maturity. Once maturity is reached then the temptation to grow numbers in the corporate centre without re-negotiating the governance between the centre and the operating companies has led some into difficulty. Likewise, the requirement for constant vigilance and focus under the Active Partnership model has been hard for many of the businesses we have looked at.

Finally, the move to the Private Equity model is the most dramatic way that a business can make a distinction between its future and its past. This is because this move puts such a strong emphasis on driving shareholder performance through the role of 'investor directors', who are there to impose the timetable sold to investors and to push for team changes if the results don't come through. It is often the trigger required to reinvigorate mature organisations.

6. How to survive the corporate centre

Many white papers seek merely to analyse – not to present recommendations. However, having worked with such a diverse range of corporate centres, over time, we've identified the best approach to take for individuals in both business units and the corporate centre in order to make the relationships work.

If you are out in the business units, the key to survival is recognising what the corporate centre is supposed to be doing and what it expects of you. Under a Holding Company and Private Equity style, the message is clear: deliver your business plan, hit the budget and don't bother headquarters with any excuses. In return, you can expect to be rewarded both financially and by being largely left alone.

From the centre's point of view, make sure that the businesses understand in no uncertain terms what the target numbers are, leave them to get on with it, and concentrate on what's happening in the market and keeping the investors sweet.

"… the key to survival is recognising what the corporate centre is supposed to be doing and what it expects of you."

Under a "larger corporate centre", there's a greater degree of subtlety involved. For the Active Partnership, the centre has to make sure its people are the best, as they are setting group-wide processes, driving change and delivering shared services and centres of expertise to the businesses.

This all costs money which has to be spent transparently and offer good value. The best way to get on with the Active Partnership centre if you're in the business units is to play ball: look out for group wide synergies, throw your support behind change initiatives and operate as a partner with the centre. If you're operating under a Tactical Partnership, however, a different approach is required. Get to know the movers and shakers, since decisions are made as much on a personal basis as on solid facts and figures. Also, try to get the centre to adopt your business processes, which should cut down on duplicate activity.

The table below contains our recommendations for survival, no matter where you find yourself and in relation to all styles of corporate centre.

	Larger Corporate Centre		Leaner Corporate Centre	
	Tactical Partnership	**Active Partnership**	**Holding Company**	**Private Equity**
If you are in the Corporate Centre you need to manage down...	• Keep costs lower than the business units think they are • Get smart people to ask smart questions • Make it clear what you expect from the divisions • Be more visible in the divisions	• Make sure the central functional team is top-notch • Make the rules – and enforce them • Keep changing the targets, both big and small • Know a lot about the market you're in • Take the team to meet the investors • Move someone out of a senior business unit position at least once a year	• Manage the budget • Manage the investors • Give the MDs the right targets and don't get in their faces • Keep new ideas at the centre until you know who you want to hand them to, as you'll never get a second chance • Don't forget strategy • Find where the talent is hidden • ...and don't forget strategy	• Know the market opportunity • Agree the targets and numbers in partnership with your MDs • Manage their performance ruthlessly • Know the numbers and put your best people on them • Decide your focus and stick to it • Remember the troops in the lower ranks are also important
If you are in the operating divisions you need to manage up...	• Always relate everything to history • Get to know the central team personally – that's how they make decisions • If you are a divisional MD, develop your own business processes and get them adopted by the centre • Keep your own team as highly competent as possible • Change by changing the client focus/business proposition – never ask the centre to change as it will humour you then ignore you • Go and see the centre or ask corporate centre over • Keep M&A small	• Stick to doing what your part of the business needs to do • Know your competition inside out • Keep your eyes out for M&A opportunities, and pursue them in partnership with the centre • Make an active contribution to central initiatives • Offer up ideas for cross business cost-savings and synergies • Send your people around the business and then get them back	• Hit the budget • Make sure the bonus plan recognises that • Develop what you need to run your business and forget what anyone else has • Know your key clients • Don't ask HQ for lunch	• Agree targets that you can probably hit • Meet them • Act, don't dither or chat • Get the best team you can afford, even on short-term contracts • Keep the timetable – as you need it • Be prepared to lose sleep!

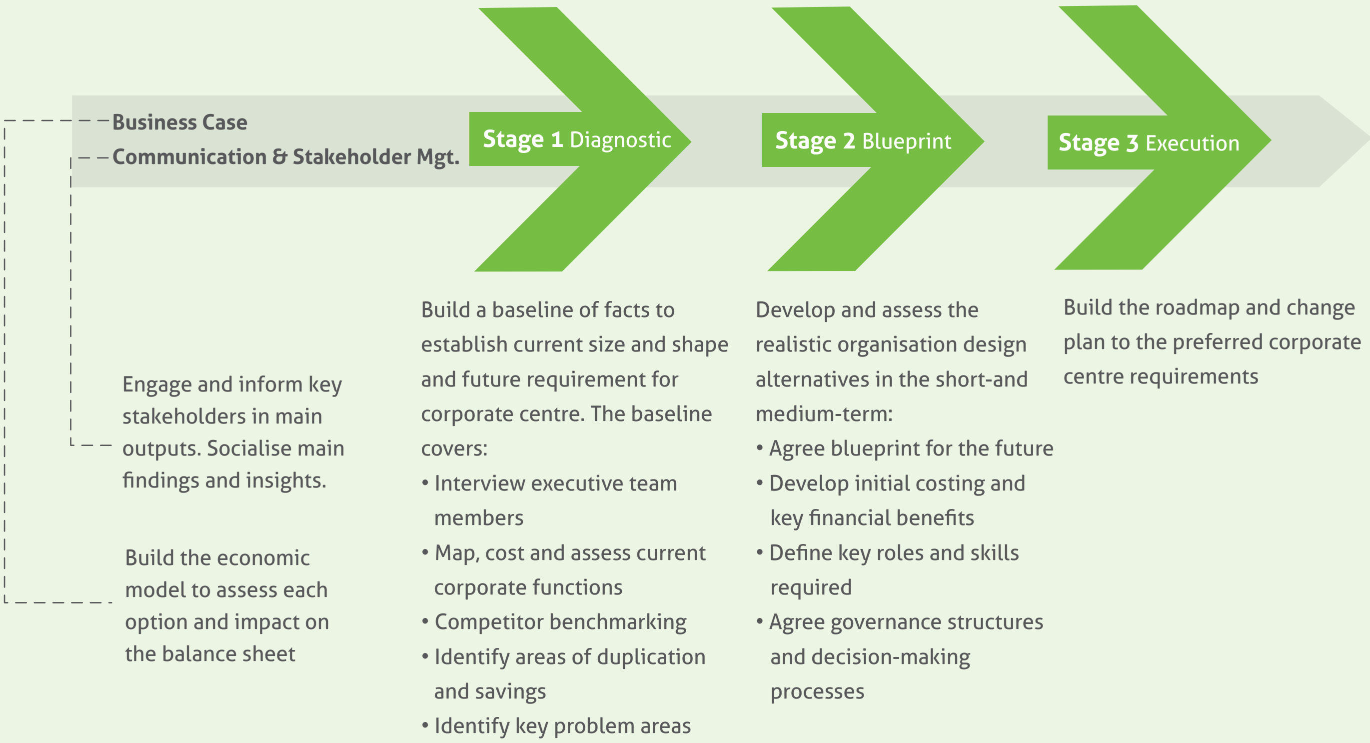
7. Conclusion

So does the corporate centre have a future? Our conclusion has to be a resounding yes – be it loved or hated, the corporate centre in all of its many different styles will always have a critical role to play, if only due to the increasing volume of compliance work. However, in the most forward-thinking companies, a commitment will be made to reducing the level of compliance-related activity that the centre under-takes, to focus instead on creating value for the organisation as a whole. Above all, this white paper shows that – however much people in businesses like to criticise the corporate centre – the role it plays is rarely neutral. It always has an impact, whether positive or negative. This means that it's worth taking the time to get it right. Our analysis shows that 'getting it right' requires a structure based on firm boundaries and strong governance between the centre and the divisions, combined with a clear vision for the months and years ahead. This is the future of the corporate centre.

Appendix 1: About Q5

Q5 is an award-winning consultancy, with a focus on delivering organisation change. We help our clients deliver change in their business in every quarter. We are positioned as an extension of the office of the CEO and their top team; helping businesses to do more, to thrive, to take advantage of future opportunities and make the most of current challenges. We work in all sectors and as a result can often draw parallels across industries that allow our clients to see their own challenges from a different perspective.

Appendix 2: Our process for analysing the Corporate Centre



Stage 1 – Diagnostic
We begin by gathering the relevant qualitative and quantitative information about the corporate centre that will enable us to answer key questions on the future role, size and shape of the corporate centre. Engaging with senior executives from the start is crucial in terms of gaining buy-in for the analysis and under-standing how things actually work on the ground. The benchmarking provides an objective view of how the corporate centre shapes up in terms of similar organisations and is a significant input into the debate around the future corporate centre.

Stage 2 – Blueprint
Armed with both facts and expert views, we put together a blueprint for the future: what will the corporate centre do, what functions belong in it and what are devolved to the business units, and how big should the corporate centre be. Everything is costed and the impact of transition is detailed. Of paramount importance is getting the governance right to ensure that interaction between the corporate centre and the businesses is effective and efficient and that clear areas of responsibility are marked out.

Stage 3 – Execution
The final stage is to develop a roadmap for carrying out the transition. There may be interim steps before the final form is in place, or it may be a "Big Bang" event. The pace and magnitude of change will be conditional on the internal appetite for change, the degree of peril posed by any burning platform, external regulators, market conditions, etc.

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